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July 13, 2010

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **EAST VALLEY COMMUNITY HEALTH CENTER, INC. CONTRACT  
REVIEW – A DEPARTMENT OF PUBLIC HEALTH HIV/AIDS CARE AND  
PREVENTION SERVICES PROVIDER**

We completed a fiscal review of the East Valley Community Health Center, Inc. (EVCHC or Agency), a Department of Public Health (DPH) HIV/AIDS care and prevention services provider. The purpose of our review was to determine whether EVCHC provided the services to eligible participants and spent funds in accordance with the County contract. We also evaluated the adequacy of EVCHC's accounting records, internal controls and compliance with the contract and applicable guidelines.

At the time of our review, EVCHC had five cost-reimbursement contracts with DPH's Office of AIDS Programs and Policy (OAPP) and was paid approximately \$1.1 million in OAPP funds from January 2008 to February 2009. The Agency's headquarters is located in the First and Fifth Districts.

**Results of Review**

EVCHC provided services to individuals who met OAPP eligibility requirements and maintained the required personnel records. EVCHC also properly recorded and deposited OAPP payments timely. In addition, the Agency reconciled its bank accounts on a monthly-basis. However, the Agency billed OAPP for undocumented program expenditures and did not comply with other County contract requirements. For example, EVCHC:

- Did not obtain OAPP's approval of their client fee system as required by the contract.

EVCHC's attached response indicates that they are in the process of updating their HIV Sliding Fee Discount Schedule (client fee system) and once it is approved by management, it will be submitted to OAPP for review and approval.

- Overcharged OAPP \$8,131 in shared program costs.

EVCHC's attached response indicates that they will perform more frequent reviews of actual costs to avoid overcharges.

- Did not have documentation to support \$2,707 reported on their Cost Reports.

EVCHC's attached response indicates that the importance of reconciling Cost Reports to the clinic's accounting records has been reiterated to the accounting staff and that procedures will be developed to have a third party review and reconcile the records.

- Charged OAPP for payroll expenditures based on budgeted estimates not actual time spent performing OAPP related activities.

EVCHC's attached response indicates that timesheets have been revised to include the distribution of time between contracts.

The details of our review along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with EVCHC and OAPP on March 5, 2010. In their attached response, EVCHC generally agreed to implement the recommendations in our report. In addition, OAPP indicated they will work with the Agency to ensure that the questioned costs are repaid or supported and the recommendations are implemented.

We thank EVCHC management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer  
Jonathan E. Fielding, Director, Department of Public Health  
East Valley Community Health Center, Inc.  
Tony Song, Chairman, Board of Directors  
Alicia Mardini, Chief Executive Director  
Public Information Office  
Audit Committee

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.  
HIV/AIDS CARE AND PREVENTION SERVICES  
CONTRACT FISCAL REVIEW  
FISCAL YEARS 2007-08 AND 2008-09**

**BACKGROUND/PURPOSE**

The Department of Public Health's (DPH) Office of AIDS Programs and Policy (OAPP) contracts with East Valley Community Health Center, Inc. (EVCHC or Agency) to provide HIV/AIDS ambulatory/outpatient medical, psychotherapy mental health, psychosocial case management, health education/risk reduction and counseling and testing prevention services.

The purpose of our review was to determine whether EVCHC appropriately spent funds in accordance with the County contract. We also evaluated the adequacy of EVCHC's accounting records, internal controls and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White Comprehensive AIDS Resource Emergency Act. In addition, we determined whether the Agency provided services to eligible participants.

**ELIGIBILITY**

**Objective**

Determine whether EVCHC provided services to individuals that meet OAPP eligibility requirements.

**Verification**

We reviewed the case files for 18 program participants that received services during January 2008 to February 2009 for documentation to confirm their eligibility for OAPP services.

**Results**

The case files for the 18 program participants sampled contained documentation to support the participants' eligibility to receive program services.

**Recommendation**

**None.**

**CASH**

**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed EVCHC's personnel and reviewed their financial records. We also reviewed the Agency's February 2009 bank reconciliations for two bank accounts.

**Results**

EVCHC properly recorded and deposited OAPP payments timely. In addition, the Agency reconciled its bank accounts on a monthly basis.

**Recommendation**

None.

**REVENUE**

**Objective**

Determine whether fees collected from clients for services provided and third party payments (i.e., private insurance) are recorded and reported to OAPP.

**Verification**

We interviewed Agency personnel and reviewed the Agency's financial records and reimbursement claims sent to OAPP.

**Results**

The Agency's client fee system was not reviewed and approved by OAPP as required by the contract.

**Recommendation**

1. EVCHC management ensure that OAPP reviews and approves the Agency's client fee system.

## COST ALLOCATION PLAN

### Objective

Determine whether the Agency's Cost Allocation Plan was prepared in accordance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

### Verification

We interviewed EVCHC's management and reviewed the Agency's Cost Allocation Plan and accounting records.

### Results

EVCHC's Cost Allocation Plan did not comply with the County contract. EVCHC allocated insurance, audit fees, medical records storage and equipment lease costs based on budgeted salaries instead of actual salary expenditures.

In addition, the Agency's billings for rent and insurance were not properly distributed to OAPP. As a result, EVCHC overcharged DPH \$5,020 for rent and \$3,111 for insurance.

### Recommendations

EVCHC management:

2. Repay DPH \$8,131.
3. Revise the Cost Allocation Plan and discontinue using budgeted salary estimates as the allocation basis for the distribution of shared costs.

## EXPENDITURES

### Objective

Determine whether program expenditures are allowable under the County contract, properly documented and accurately billed to the OAPP program.

### Verification

We interviewed Agency personnel, reviewed accounting records and reviewed documentation for 17 non-payroll expenditure transactions charged to OAPP during Fiscal Years 2007-08 and 2008-09, totaling \$34,450.

**Results**

The Agency did not always maintain appropriate documentation to support program expenditures. Specifically, EVCHC was not able to provide support for pharmacy costs billed to OAPP. Subsequent to our exit conference, the Agency obtained support for the pharmacy costs.

**Recommendation**

4. EVCHC management maintain adequate supporting documentation for all OAPP expenditures.

**FIXED ASSETS AND EQUIPMENT**

**Objective**

Determine whether the Agency's fixed assets and equipment purchases made with OAPP funds are used for the OAPP program and are safeguarded.

We did not perform test work in this area, as the Agency did not charge OAPP any costs for the purchase of any fixed assets.

**Recommendation**

None.

**PAYROLL AND PERSONNEL**

**Objective**

Determine whether payroll is appropriately charged to the OAPP program. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced payroll expenditures for 12 employees totaling \$33,037 for December 2008. We also reviewed the personnel files for 12 employees assigned to the OAPP program.

**Results**

Generally, EVCHC maintained the required personnel records. However, EVCHC's payroll billings were based on budgeted percentages not actual time spent by each employee performing OAPP related activities as required by the County contract. In addition, EVCHC did not require their staff to report the actual hours worked on the OAPP program on their timecards. As a result, we were unable to verify the appropriateness of the payroll expenditures billed to OAPP.

**Recommendations**

EVCHC management ensure:

5. Payroll billings are based on actual hours spent by employees performing OAPP related activities.
6. Employees record actual hours worked each day on their time reports to support the time spent on program activities.

**COST REPORTS**

**Objective**

Determine whether the Agency's Cost Reports reconcile to the Agency's accounting records.

**Verification**

We traced the Agency's Cost Reports for the budget periods ending December 2008 and February 2009 to the Agency's accounting records.

**Results**

EVCHC's expenditures reported on their Cost Reports exceeded their accounting records by \$2,707. In addition, EVCHC received approximately \$52,000 in Medi-Cal revenue that was not reported on their Cost Reports as required.

**Recommendations**

EVCHC management:

7. Repay DPH \$2,707 or provide documentation to support the expenditures not recorded.
8. Ensure Cost Reports are supported by the Agency's accounting records.
9. Ensure revenue from Medi-Cal and other third party payers is reported to OAPP through the Cost Reports.



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April 30, 2010

Ms. Wendy L. Watanabe  
Auditor – Controller  
County of Los Angeles  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-3873

Subject: Response to Auditor Comments re review of HIV/AIDS Care and Prevention  
Contracts

#### **Results of Review**

While I appreciate that times have changed, my training as a Certified Public Accountant taught me that when preparing an audit report, comments, both positive and negative, should be included. The tone of this section of the report (an Executive Summary of sorts) would certainly lead the Board of Supervisors to have nothing but a negative opinion about East Valley Community Health Center and its performance under the terms of these contracts. The auditors tested internal control plus many transactions, both large and small, in addition to the noted exceptions yet the many positive results go unmentioned in this key paragraph.

#### **Revenue**

Claims are submitted to the Office of AIDS Programs and Policy on a cost reimbursement basis in accordance with the contract line item budget. In this regard, a patient fee system would therefore not be applicable.

While we have been diligent in submitting claims to Medi-Cal, Medicare, private carriers, etc., we have not actively pursued payments by patients preferring rather to absorb the cost of the visit or accept nominal donations.

EVCHC is in the process of updating its HIV Sliding Fee Discount Schedule and once it is approved by management, it will be submitted for OAPP's review and approval and placed into service.

#### **Cost Allocation Plan**

In a diverse entity such as East Valley Community Health Center, it is essential that a fair and reasonable basis for allocating non-direct costs be established. In the opinion of

#### ***OUR MISSION:***

*To provide quality and accessible comprehensive healthcare and health education services to the low-income and underserved populations of the East San Gabriel and Pomona Valleys.*

[www.evchc.org](http://www.evchc.org)



Management, revenue would be too distortive as its basis varies from one functional area to the other. Over the years and with the acceptance of scores of auditors, it has been felt that the number of personnel dedicated/assigned to each of the twenty-six functional areas provides the most equitable basis for allocation.

At the time that the budget is prepared, percentage relationships based on projected salaries are calculated and form the basis for the allocations. The budgeted salaries include anticipated increases and additions to staff – rarely is there an addition that has not been anticipated. During the coming year, tests, similar to the one undertaken for the Auditors, will be conducted (at least, semi-annually) to ascertain if actual salaries have impacted the allocation percentages in any way. If so, the appropriate adjustments will be made. In addition, adjustments would be effected were conditions to arise which would enable more specific allocation of costs.

More frequent review will enable EVCHC to avoid the overcharges which have arisen with respect to building rent and insurance.

#### **Expenditures**

At December 31, 2009, EVCHC's patient management system accounted for more than 77,000 medical visits during the current year by almost 29,000 patients. Each patient has a unique medical record automatically and systematically assigned to them by the software which, regrettably, cannot be modified to incorporate a specific area of service (Family Planning, Pre-Natal, HIV, etc.). To specifically identify an HIV patient is therefore not possible. In addition, there is no mechanism available for reporting which medications a particular patient has been prescribed.

There is, however, only one provider that sees HIV patients and reports can be generated which summarize the number of patients and visits that he has encountered in a given period of time. As noted in their findings, such a report was prepared for the Auditors and accepted by them as support for the amounts claimed. EVCHC will continue to generate this report, at least semi-annually, and make adjustments in accordance with the findings.

#### **Payroll and Personnel**

The majority of the salary costs billed to OAPP relate to staff who work solely on the various HIV contracts. Their timesheets have been revised to include the distribution of time, if any, between the contracts.

The timesheets of the remaining staff have been similarly revised. The percentages which have been established are based on Management's current perspective (with appropriate staff input) of the amount of time that the employee dedicates to a specific contract.

These assessments are updated annually in conjunction with the budgetary process. In the opinion of Management, to require detailed time-keeping by Administrative Staff and Senior Management is counterproductive, inefficient and unjustifiably time-consuming. As a member of Senior Management with diverse responsibilities, am I to be required to keep copious notes as to the time that I spend each day on each of the clinic's thirty-one cost centers? Isn't this time better spent contributing to the Clinic's fulfillment of its contractual obligations than to tracking and recording my minute-to-minute movements?

**Cost Reports**

The importance of reconciling Annual Cost Reports to the clinic's accounting records has been reiterated to the Accounting staff; procedures will be developed and implemented to have a third party review and reconcile the records.

We are surprised to see the comment about omitting Medi-Cal revenue from the Annual Cost report as it has been prepared and submitted in exactly the same way since the inception of the original contract. It has been accepted by OAPP each time, without comment.

Future submissions will include amounts collected.

Respectfully submitted,



J. F. Gotsill  
Finance Director

Cc: A. Mardini  
J. Castellon  
D. Lara  
A. Achekian